

adviser to a registered investment company except under a written contract that has been approved by the vote of a majority of the company's outstanding voting securities. Rule 18f-2 under the Act provides that each series or class of stock in a series company affected by a matter must approve such matter if the Act requires shareholder approval.

2. Section 6(c) of the Act provides that the Commission may exempt any person, security, or transaction, or any class or classes of persons, securities, or transactions from any provisions of the Act, or from any rule thereunder, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Applicants believe that the requested relief meets this standard for the reasons discussed below.

3. Applicants state that the Series' shareholders rely on the Manager to select the Sub-Advisers best suited to achieve a Series' investment objectives. Applicants assert that, from the perspective of the investor, the role of the Sub-Advisers is comparable to that of individual portfolio managers employed by traditional investment advisory firms. Applicants contend that requiring shareholder approval of each Sub-Advisory Agreement would impose costs and unnecessary delays on the Series, and may preclude the Manager from acting promptly in a manner considered advisable by the Board. Applicants also note that the Advisory Agreement will remain subject to section 15(a) of the Act and rule 18f-2 under the Act.

Applicants' Conditions

Applicants agree that any order granting the requested relief will be subject to the following conditions:

1. Before a Series may rely on the order requested in the application, the operation of the Series in the manner described in the application will be approved by a majority of the Series' outstanding voting securities, as defined in the Act, or, in the case of a Series whose public shareholders purchase shares on the basis of a prospectus containing the disclosure contemplated by condition 2 below, by the initial shareholder before offering shares of the Series to the public.

2. Each Series relying on the requested order will disclose in its prospectus the existence, substance, and effect of any order granted pursuant to this application. In addition, each Series will hold itself out to the public as

employing the management structure described in the application. The prospectus will prominently disclose that the Manager has ultimate responsibility (subject to oversight by the Board) to oversee the Sub-Advisers and recommend their hiring, termination, and replacement.

3. Within 90 days of the hiring of any new Sub-Adviser, the Manager will furnish shareholders of the affected Series all information about the new Sub-Adviser that would be included in a proxy statement. To meet this obligation, the Manager will provide shareholders of the applicable Series with an information statement meeting the requirements of Regulation 14C, Schedule 14C, and Item 22 of Schedule 14A under the Securities Exchange Act of 1934.

4. The Manager will not enter into a Sub-Advisory Agreement with any Affiliated Sub-Adviser without that agreement, including the compensation to be paid thereunder, being approved by the shareholders of the Series.

5. At all times, at least a majority of the Board will be Independent Trustees, and the nomination of new or additional Independent Trustees will be at the discretion of the then-existing Independent Trustees.

6. When a Sub-Adviser change is proposed for a Series with an Affiliated Sub-Adviser, the Board, including a majority of the Independent Trustees, will make a separate finding, reflected in the Board minutes, that such a change is in the best interests of the Series and its shareholders and does not involve a conflict of interest from which the Manager or the Affiliated Sub-Adviser derives an inappropriate advantage.

7. The Manager will provide general management services to each Series, including overall supervisory responsibility for the general management and investment of the Series' assets and, subject to review and approval of the Board, will (i) set the Series' overall investment strategies; (ii) evaluate, select, and recommend Sub-Advisers to manage all or part of a Series' assets; (iii) when appropriate, allocate and reallocate a Series' assets among multiple Sub-Advisers; (iv) monitor and evaluate the performance of Sub-Advisers; and (v) implement procedures reasonably designed to ensure that the Sub-Advisers comply with each Series' investment objective, policies, and restrictions.

8. Shareholders of a Series will approve any change to a Sub-Advisory Agreement if such change would result in an increase in the overall management and advisory fees payable

by the Series that have been approved by the shareholders of the Series.

9. No trustee or officer of the Trust, or director or officer of the Manager, will own directly or indirectly (other than through a pooled investment vehicle that is not controlled by such person) any interest in a Sub-Adviser, except for (a) ownership of interests in the Manager or any entity that controls, is controlled by, or is under common control with the Manager; or (b) ownership of less than 1% of the outstanding securities of any class of equity or debt of a publicly traded company that is either a Sub-Adviser or an entity that controls, is controlled by, or is under common control with a Sub-Adviser.

10. The requested order will expire on the effective date of Rule 15a-5 under the Act, if adopted.

For the Commission, by the Division of Investment Management, under delegated authority.

Nancy M. Morris,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release Number IC-27471; File No. 812-13236]

Principal Life Insurance Company; et al., Notice of Application

August 29, 2006.

AGENCY: Securities and Exchange Commission ("SEC" or "Commission").

ACTION: Notice of Application for an Order pursuant to section 11(a) of the Investment Company Act of 1940, as amended (the "Act"), approving the terms of a proposed offer of exchange.

APPLICANTS: Principal Life Insurance Company ("Principal" or the "Company"); Principal Life Insurance Company Variable Life Separate Account (the "Account"); and Princor Financial Services Corporation ("Princor") (collectively, "Applicants").

SUMMARY OF APPLICATION: Applicants request an order approving the terms of a proposed offer of exchange of new flexible variable universal life insurance policies issued by Principal and participating in the Account (the "New Policies") for certain outstanding flexible variable universal life insurance policies issued by Principal and participating in the Account (the "Old Policies") (collectively with the New Policies, the "Policies").

FILING DATE: The application was filed on September 23, 2005, and amended on July 31, 2006, and August 29, 2006.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Secretary of the Commission and serving Applicants with a copy of the request, in person or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on September 25, 2006, and should be accompanied by proof of service on the Applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the Secretary of the Commission.

ADDRESSES: Secretary: Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-1090; Applicants: c/o John W. Blouch, Esq., Dykema Gossett PLLC, Franklin Square Building, 1300 I Street, NW., Suite 300 West, Washington, DC 20005.

FOR FURTHER INFORMATION CONTACT: Rebecca A. Marquigny, Senior Counsel, or Joyce M. Pickholz, Branch Chief, Office of Insurance Products, Division of Investment Management, at (202) 551-6795.

SUPPLEMENTARY INFORMATION: The following is a summary of the Application. The complete Application is available for a fee from the Commission's Public Reference Branch, SEC's Public Reference Branch, 100 F Street, NE., Room 1580, Washington, DC 20549 (telephone (202) 551-8090).

Applicants' Representations

1. Principal is a stock life insurance company and is a wholly-owned subsidiary of Principal Financial Group, Inc. organized under the laws of Iowa in 1879. It is authorized to transact life insurance and annuity business in 50 states and the District of Columbia.

2. The Account was established on November 2, 1987, pursuant to a resolution of the Executive Committee of Principal's board of directors. The Account is organized and registered under the Act as a unit investment trust (File No. 811-5118).

3. Princor, the principal underwriter for the Policies and for certain other variable insurance policies and mutual funds sponsored by Principal, is a wholly-owned subsidiary of Principal Financial Group, Inc. Princor is registered with the Commission as a

broker-dealer and is a member of NASD, Inc.

4. The New Policies are offered pursuant to a registration statement filed on January 30, 2002, under the Securities Act of 1933 (the "'33 Act"), and effective on May 28, 2002 (File No. 333-81714).

5. The New Policies are flexible premium variable universal life insurance policies that permit the accumulation of policy values on a variable, fixed or combination of variable and fixed basis. The New Policies allow for unscheduled premium payments or the establishment of a premium payment schedule. The New Policies terminate when the death proceeds are paid, when the maturity proceeds are paid, or when a policy is surrendered. The New Policy also terminates at the expiration of a 61-day grace period following a date when notice is given that the net policy value is less than the monthly policy charge. The New Policy matures at the insured's attained age of 100. On that date, if the insured is living, the Policy is in force and the insured does not want the maturity date extended, Principal will pay maturity proceeds equal to the net surrender value. The minimum face amount of a New Policy is \$100,000.

6. Policy values of the New Policies may be allocated to the Subaccounts of the Account that currently invest in 71 different investment company portfolios ("Underlying Funds"). Amounts invested in the Underlying Funds are subject to the management, administration and distribution fees paid and other expenses incurred by the Underlying Funds. Policy values may also be accumulated on a guaranteed basis by allocation to Principal's general account (the "Fixed Account"). Fixed account interest is guaranteed to be credited at a rate of at least 3% compounded annually.

7. The New Policy provides that after the initial allocation of premiums, the owner may transfer amounts among the subaccounts of the Account ("Subaccounts") or the Fixed Account subject to the following restrictions. The owner may not make both a scheduled fixed account transfer and an unscheduled fixed account transfer in the same policy year where the transfer is from the Fixed Account. One unscheduled transfer from the Fixed Account may be made during the first 30-day period of each calendar quarter.

8. Unscheduled transfers including transfers not involving the Fixed Account are otherwise allowed, subject to a fee of up to \$25 for each unscheduled transfer after the first unscheduled transfer in a policy month.

Scheduled transfers from one Subaccount to another Subaccount are allowed at no charge. The Company reserves the right to reject a transfer if the transfer would disrupt the management of the Underlying Funds or the Account.

9. Policy values under the New Policies may be accessed by means of policy loans, partial surrenders, or total surrender. The owner of a New Policy may borrow up to 90% of the net policy value. The net loan cost is 1.0% during the first 10 policy years and 0.3% thereafter until the policy maturity date, when the net loan cost is zero. The net loan cost is computed based on loan interest at 5.0% per year for the first 10 policy years, 4.3% after policy year 10, and 4.0% if coverage is extended beyond the maturity date, as offset by the loan crediting rate of 4.0%. The owner of a New Policy may make partial surrenders, each in a minimum amount of \$500, on or after the 1st policy anniversary. The partial surrender may not be greater than 90% of the net policy value. A transaction fee of \$25 is charged for each partial surrender after the second in a policy year. The policy value will be reduced by the amount of the partial surrender plus any transaction fee. The owner of a New Policy may surrender the policy in full. No surrender or contingent deferred sales charge is imposed on a total surrender. There is no refund of any monthly policy charge deducted before the full surrender effective date. A surrender will be paid at the end of the valuation period during which the surrender request is received, except that payment of the fixed account portion of the net surrender value may be deferred as set out in the prospectus.

10. The New Policy offers a free look provision, whereby the insured can return the Policy along with a written request to terminate the Policy before the later of 10 days after the owner receives the policy, or such date as specified by applicable state law. If returned, the Company will refund the full amount of premiums when required by state law; otherwise, the Company will refund the net policy value.

11. The owner of a New Policy may request a change in the policy face amount provided that the Policy is not in a grace period. The minimum increase in policy face amount is \$10,000. Principal will approve the request to increase the face amount if the insured is alive and age 75 or less at the time of the request and Principal receives satisfactory evidence that the insured is insurable under underwriting guidelines in place at the time of the request. On or after the first policy

anniversary, the policy owner may request a decrease in face amount that does not reduce total face amount below \$100,000. There is no transaction fee for the face amount decrease.

12. The New Policies offer a death benefit equal to a choice of the following options: (1) The greater of the total face amount or the surrender value multiplied by the applicable percentage based on Section 7702 of the Internal Revenue Code ("IRC"); (2) the greater of the total face amount plus the policy value or the surrender value multiplied by the applicable percentage; and (3) the greater of the total face amount plus premiums paid less partial surrenders (if positive) or the surrender value multiplied by the applicable percentage. Death proceeds equal the death benefit plus interest, minus loan indebtedness and any overdue monthly policy charges. Proceeds will be paid to the beneficiaries when the insured dies as long as the Policy is in force.

13. The New Policies provide for a front-end sales load equal to the following percentages of premiums paid up to the target premium: 4.50% in year 1, 7.0% in years 2 through 5, and 3.0% in years 6 through 10. The target premium is based on policy face amount, and the insured's age, risk classification and, if applicable, gender. The same charges apply to face amount increases and are based on the target premium for the increase ("incremental target premium"). Premiums paid after an increase in face amount are allocated between the "base Policy" and the "incremental Policy" that was added by the increase according to the relative face amounts of the base Policy and the incremental Policy. No charge applies to payments in excess of the applicable target or incremental target premium. For payments made more than 10 years after the last face amount increase (or, if none, initial premium payment), Principal reserves the right to charge up to maximum of 3.0% of premiums paid up to or equal to the relevant target or incremental target premium.

14. 2% of premiums paid are deducted from premium payments under the New Policy for state, federal and local taxes. 1.25% of premiums received is deducted for Principal's increased federal income tax obligations attributed to its amortization over a ten year period of a portion of its expenses in offering the New Policies ("DAC Taxes").

15. Under the New Policies, on the policy date and each monthly date thereafter, a monthly policy charge is deducted from the policy value for: (a) Cost of insurance, (b) an asset based charge, and (c) charges for any optional

insurance benefits added by riders. The cost of insurance charge for standard underwriting is guaranteed to be no more than that permitted under the applicable 1980 Commissioners Standard Ordinary Mortality Table ("1980 CSO Table"). Risk classes used in computing cost of insurance charges under the New Policy include preferred non-smoker, preferred smoker, standard non-smoker, and standard smoker, as well as a range of substandard and flexible underwriting classes which can carry charges in excess of the 1980 CSO Table. The annualized asset based charge equals 0.3% of variable policy value and can be increased to 0.6%. Exchange offerees will receive prior notice of any rate increase.

16. The following supplemental insurance benefit riders are available (without charge unless indicated) and may be included in New Policies at issue: (a) A Change of Insured Rider allowing a business to change the insured when an employee leaves employment or ownership of the business changes; (b) an Enhanced Cash Surrender Value Rider providing for payment of an additional amount at the time of full surrender if it occurs during the first ten policy years; (c) an Extended Coverage Rider extending the Policy beyond the maturity date provided the insured is living and the Policy is still in force on the maturity date; (d) a Death Benefit Guarantee Rider extending the no-lapse guarantee provision provided sufficient premiums are paid; and, (e) a Supplemental Benefit Rider which provides reduced-cost additional insurance (face amount).

17. The Old Policies are offered pursuant to a registration statement filed on January 8, 1996, under the '33Act, and effective on February 1, 1997 (File No. 333-00101).

18. The Old Policies are flexible premium variable universal life insurance policies that permit the accumulation of policy values on a variable, fixed, or combination of variable and fixed basis. Where permitted by state law, the Old Policies have either a 24-Month Minimum Required Premium provision ("24 MRP") or a 5-Year No-Lapse Guarantee provision ("NLG"). The 24MRP provision ensures that the policy will not lapse during the first 24 months after the policy date if the premiums paid are greater than or equal to the minimum required premium. The NLG provision provides that if the owner pays total premiums satisfying the provision requirement, prior to the 5th policy anniversary, the policy will not terminate even if the net surrender value cannot cover the monthly policy

charge. Old Policies terminate after the maturity date, upon payment of the death benefit, on a full surrender of a policy for its net surrender value, or at the end of a 61-day grace period beginning the monthly date where the current monthly charges are higher than net surrender value and neither lapse prevention provision applies. The Old Policies maturity date is the policy anniversary following the 95th birthday of the insured. At maturity (assuming no extended coverage rider is in effect), the policy owner is paid accumulated policy value less outstanding policy loans and unpaid interest.

19. The Old Policy minimum face amount is \$50,000 (or \$25,000 for guaranteed issue special underwriting). Values may be allocated to Subaccounts currently investing in 44 Underlying Funds or the Fixed Account guaranteeing at least 3% interest compounded annually.

20. Policy values of the Old Policies may be transferred among the Subaccounts of the Account without charge, although Principal reserves the right to charge of up to \$25 per unscheduled transfer after the first 12 in a policy year. Transfers to and from the Fixed Account are permitted subject to certain restrictions.

21. Policy values under the Old Policies may be accessed by means of policy loans partial surrenders, or total surrenders. The owner of an Old Policy may borrow up to 90% of the net surrender value at a net loan cost of 2.0% for the first 10 policy years and 0.25% thereafter until maturity when the cost is zero. The net loan cost is based on loan interest at 8.0% per year. Interest credited to the loan account is 6.0% for the first ten policy years and 7.75% thereafter and 8.0% if coverage is extended beyond the maturity date. Partial surrenders of an Old Policy are permitted no more than two times per year in minimum amounts of \$500. The total of the amount(s) surrendered may not be greater than 75% of the net surrender value (as of the date of the request for the first partial surrender in that policy year). The policy value is reduced by the amount of the partial surrender plus the lesser of \$25 or 2% of the partial surrender. The owner of an Old Policy also may surrender the policy in full. There is a surrender charge including a contingent deferred sales load, contingent deferred administrative charge and other charges. Surrenders are paid at the end of the valuation period when the request is received, but the portion attributable to the fixed account may be deferred as the prospectus provides.

22. If the policy is not in a grace period and monthly charges are not waived by rider, the Old Policy owner may increase the policy face amount by a minimum of \$50,000. Principal will approve the face amount increase request if, at the time of the request, the owner is age 85 or less, and Principal receives satisfactory evidence that the owner is insurable under underwriting guidelines in place at that time. On or after the second policy anniversary, the owner may also request a face amount decrease provided it does not reduce the total face amount below \$50,000. No transaction fee applies to such decrease.

23. The Old Policies offer two death benefit options: A level death benefit equal to face amount or a death benefit equal to face amount plus policy value. If necessary to meet the definition of life insurance in section 7702 of the IRC, the death benefit under either option may be greater.

24. The Old Policies have both a front-end sales load and a contingent deferred sales charge ("CDSC"). The front-end sales load is 2.75% of (a) premiums paid during each of the first ten policy years up to the target premium for the initial face amount, and (b) for the first ten policy years after a face amount increase, premiums allocable to that increase up to the target premium for that incremental increase (an "incremental target premium"). Premiums paid after a face amount increase are allocated according to the relative face amounts of the "base Policy" and the "incremental Policy" added by the increase. Within the first ten policy years (or years after an increase), payments in excess of the relevant base or incremental target premium are assessed a 0.75% front-end sales load. The charge does not apply to payments made after ten policy years or the equivalent period following an increase.

25. A surrender charge consisting of the CDSC and a contingent deferred administrative charge ("CDAC") is imposed upon full surrender of the Old Policy within ten years of the policy date or of a face amount increase. The CDAC is \$3 per \$1,000 of face amount, but is guaranteed not to exceed \$1,500. The maximum CDSC is 47.25% of the first two target premiums received (and the first two target premiums received for any face amount increase) for insureds under age 66 years. If the insured is older than 65 at the policy date or the date of a face amount increase, then the number of target premiums to which CDSC charges apply is reduced from two to: (a) 1.5 for ages 66–70; (b) 1.1 for ages 71–75; (c) 0.8 for ages 76–80; or (d) 0.5 for ages 81–85.

(After age 85, Old Policies will no longer be issued nor face amount increases permitted.)

26. The CDSC applies only at the time of a full surrender or lapse of an Old Policy; it does not apply to partial surrenders. There is a charge for processing partial surrenders equal to the lesser of \$25 or 2% of amount of the partial surrender. Decreases in face amount do not reduce the CDSC; it continues to reflect the highest face amount of the Old Policy. The amount of the CDSC is computed as of the date that the surrender or lapse occurs and decreases over time.¹

27. Under the Old Policies, charges are deducted from premium payments for: State and local taxes (2.2% of premiums) and federal taxes (1.25%). These charges are expected to recover tax obligations of Principal as a result of its receipt of premiums under the Old Policies.

28. Under the Old Policies to reimburse Principal for the cost of maintaining the Old Policies, the guaranteed maximum \$10.00 per month administration charge is assessed.

29. The Old Policy cost of insurance charge for standard underwriting is guaranteed to be no more than that permitted under the applicable 1980 CSO Table and is deducted from the Old Policy value each month. This charge compensates Principal for providing insurance protection under the Old Policy and varies from insured to insured based upon issue age, gender (except where unisex rates are mandated by law), duration since issue, smoking status and risk classification. Risk classes used in computing cost of insurance charges under the Old Policies include: preferred non-smoker, preferred smoker, standard non-smoker and standard smoker. In addition, the Company offers substandard and flexible underwriting arrangements which may result in charges in excess of the 1980 CSO Table.

30. A mortality and expense risks charge is deducted monthly from each Old Policy's Subaccount value. The annual rate for policy years 1 through 9 is 0.90% and 0.27% thereafter.

31. The Old Policies may be issued with optional insurance riders providing for a waiver of charges or premiums in the event of disability, change of insured, accelerated benefits in the event of terminal illness, extended coverage beyond the Old

Policy's maturity date and a death benefit guarantee. Where permitted by state law, [if certain conditions are met] the death benefit guarantee rider is included with an Old Policy automatically at issue. Under the Old Policies, there are three optional riders that permit face amount increases without new evidence of insurability (the "Increase Riders"). A policy owner may only select one.

32. The Company also issues an Accounting Benefit Rider on Old Policies. It can be used only in connection with sale of the Old Policies as corporate owned life insurance (the "Accounting Benefit Rider") and effectively waives the surrender charges. This rider is designed to minimize the adverse impact on the financial statements of the purchaser (a corporation or other business entity), which would otherwise result under generally accepted accounting principles, by allowing the purchaser to match its expenses incurred in connection with the issuance of the Old Policy with its liquidation value.

33. Applicants represent that the most significant differences between the Old and New Policies are the following:

(a) The New Policies were designed exclusively for the corporate-owned life insurance market. The Old Policies were designed for the retail market and, secondarily, for the corporate-owned life insurance market.

(b) The New Policy has no surrender charges. The Old Policy has surrender charges comprised of a contingent deferred sales charge and a contingent deferred administrative charge during the first ten policy years and ten years following each face amount increase.

(c) The New Policy does not have an administration charge. The Old Policy has an administration charge of \$10.00 per month.

(d) The New Policies currently offer a Fixed Account funding option and 71 Subaccounts; the Old Policies offer a Fixed Account funding option and 44 Subaccounts.

(e) The maximum sales charge for the Old Policy imposed for years one through 10 after issue or face amount increase is 2.75% of premiums paid up to a target premium and 0.75% of excess premiums paid over the target premium. The maximum sales charge for the New Policy is 4.50% of premiums paid in policy year one up to the target premium, 7.0% of target premiums paid in policy years 2 through 5, and 3.0% of target premiums paid in policy years 6 through 10. The Company reserves the right to impose a charge under the New Policy for years 11 and beyond up to 3.0% of target premiums. The Old

¹ In years 1 through 5, the CDSC charge is 100% of the maximum CDSC; in years 6 through 10, the charges for each year are 95.24%, 85.715%, 71.43%, 52.38%, respectively. The CDSC for a surrender or lapse in the first two policy years may be lower for certain contracts as described in the application.

Policies charge 3.45% and the New Policies charge 3.25% of premiums paid for Federal, state and local taxes.

(f) The Old Policy currently has a mortality and expense risks charge of 0.90% of the Subaccount values. The New Policy has an asset-based charge of 0.30% of Subaccount values.

(g) Flexible and substandard underwriting programs are available under both the Old and New Policies. If flexible or substandard underwriting was used to issue the Old Policy or will be used to issue the New Policy, the cost of insurance charges may be greater than standard underwriting because of higher anticipated mortality. Although the calculation methodologies used to determine the cost of insurance charges for substandard and for flexible underwriting programs are different for the Old and New Policies, the cost of insurance charge for substandard and for flexible underwriting on New Policies will never exceed the cost of insurance charges for substandard and for flexible underwriting on Old Policies.

(h) The minimum face amount for Old Policies is \$50,000 and \$100,000 for New Policies.

(i) The Old Policy minimum face amount increase is \$50,000, while the New Policy provides for a minimum face amount increase of \$10,000. The Old Policy permits face amount decreases only after the second policy year; the New Policy permits decreases after the first policy year. The New Policies do not permit decreases that would reduce the face amount below \$100,000; the Old Policies set this floor at \$50,000 (\$25,000 for guaranteed issue underwriting).

(j) The Old Policies offer a choice of two death benefit options; the New Policies offer three.

(k) The net loan cost on the Old Policy is 2% during the first 10 policy years, and 0.25% thereafter until the policy maturity date, when the net loan cost is zero. The net loan cost for the New Policy for the same periods is 1%, 0.3% and zero.

(l) Both Old and New Policies offer these riders: Change of Insured, Extended Coverage (meaning coverage beyond the Maturity Date) and Death Benefit Guarantee. The Supplemental Benefit and the Enhanced Cash Surrender Value riders are only offered in the New Policy. The Old Policies offer the following riders that are unavailable under the New Policies: Waiver of Monthly Policy Charges, Accidental Death Benefit, Cost of Living, Extra Protection Increase, Salary Increase, Child Term, Waiver of Specified Premium, Spouse Term

Insurance, Accelerated Benefits, and Accounting Benefit. Applicants represent that these riders have not been made available under the New Policies because they are not designed for the corporate-owned life insurance market or the New Policies do not need them because there are no surrender charges.

34. Applicants represent that the offer to exchange New Policies for Old Policies will be made to all of the approximately 125 policy owners who own one or more of the 1,000 Old Policies that meet all of the following criteria on the offer date: (i) Are trust or corporate owned; (ii) are used in connection with nonqualified deferred compensation plans ("NQDC plans"); (iii) are not within the 61 day grace period and have not lapsed; (iv) qualify for a New Policy under Principal's current underwriting requirements; (v) have an insurable interest and written consent from the insured employee permitting the owner to purchase the New Policy; (vi) were not issued with guaranteed issue underwriting; and (vii) are not currently named in any filed bankruptcy or insolvency proceeding.

35. Applicants also represent that the offer to exchange New Policies for Old Policies will be made by providing owners of Old Policies with a prospectus for the New Policy, accompanied by a letter explaining the offer and sales literature that compares the two Policies. Applicants state that the offering letter will advise the Old Policy owner that personalized illustrations of the Old Policy and the New Policy using the information particular to that owner are available without cost upon request.

36. Applicants represent that the exchange offer will remain open for at least 6 months after the date of an order granting the exchange application. Applicants state that, upon acceptance of the exchange offer, a New Policy will be issued with the same face amount and policy value as the Old Policy surrendered in the exchange, unless the face amount of the New Policy is increased to meet the definition of life insurance under section 7702 of the IRC.

37. Applicants further represent that immediately following the exchange, the "owner" and "insured" of the New Policy must be the same as the "owner" and "insured" under the exchanged Old Policy. Applicants state that the New Policy will treat all charges and loads, the free look period, the incontestability, and suicide provisions as a new issue.

38. Applicants indicate that the risk class for a New Policy acquired by the exchange will be the one most similar to the risk class for the Old Policy.

Applicants state the if the Old Policy includes a face amount increase at a risk class worse than that for the Old Policy as originally issued, then the New Policy will be issued at the risk class most similar to that for the Old Policy as originally issued. Applicants indicate that new evidence of insurability will not be required as a condition of the exchange unless (i) the owner applies to have the insured's rating upgraded; or (ii) the owner requests a face amount increase at the time of the exchange. Applicants represent that any increase in face amount or upgrade in rating in connection with the exchange will take effect under the New Policy on the monthly anniversary after the new underwriting requirements have been satisfied.

39. Applicants represent that no surrender charge will be deducted upon the surrender of an Old Policy in connection with an exchange, and no premium loads will be deducted from the proceeds of that surrender when applied to the purchase of the New Policy as part of the exchange. Applicants state that all costs associated with the administration of the exchange offer, including the costs of commission payments, will be borne solely by the Company.

40. Applicants state that the exchange is available only to Old Policies that do not have any outstanding loans and that loans can be repaid either in cash or by means of a partial surrender. Applicants represent that the face amount the Old Policy has after any loan has been repaid will be the face amount of the New Policy. Applicant further represent that any offering materials delivered to the Old Policy owners describing the exchange will include the fact that loans must be repaid prior to the exchange and that repayment of the loan by means of a partial surrender could have adverse tax consequences.

Applicants' Legal Analysis

1. Section 11(a) of the Act makes it unlawful for any registered open-end company, or any principal underwriter for such a company, to make an offer to the holder of a security of such company, or of any other open-end investment company, to exchange his security for a security in the same or another such company on any basis other than the relative net asset values of the respective securities, unless the Commission has approved the terms of the offer by exemptive order or the offer complies with Commission rules adopted under section 11 governing exchange offers. Section 11(c) of the Act, which applies to offers to exchange the securities of a registered unit

investment trust for the securities of any other investment company, provides that the requirements of section 11(a) are applicable regardless of whether the exchange is on the basis of net asset value.

2. Because the proposed exchange offer constitutes an offer of exchange of two securities, each issued by a registered unit investment trust, Applicants may make the proposed exchange offer only after the Commission has approved the terms of the offer by an order pursuant to section 11(a) of the Act unless the terms of the exchange offer are consistent with those permitted by Commission rule.

3. Rule 11a-2 provides blanket Commission approval of certain types of offers of exchange of one variable annuity contract for another or of one variable life insurance contract for another. Variable annuity exchanges are permitted by Rule 11a-2 provided that the only variance from a relative net asset value exchange is an administrative fee disclosed in the offering account's registration statement and a sales load or sales load differential calculated according to methods prescribed in the rule. However, no exchange is permitted under Rule 11a-2 that involves a variable annuity acquired or exchanged that has both a front-end and a deferred sales load. Although the conditions required by Rule 11a-2 for variable life insurance policies are less extensive than those for variable annuities, there is Commission language in the release adopting Rule 11a-2 that suggests that the rule may have been intended to permit only exchanges of funding options within a single variable life insurance policy but not the exchange of one such policy for another. Investment Company Act Release No. 13407 (July 28, 1983) at "(2) Exchange Offers by Variable Life Insurance Separate Accounts." Because of the uncertainty as to the relief accorded by Rule 11a-2 for variable life insurance policies, Applicants can not rely on that rule.

4. Rule 11a-3 takes a similar approach to that of Rule 11a-2. As with Rule 11a-2, the focus of Rule 11a-3 is primarily on sales or administrative charges that would be incurred by investors for effecting exchanges. Applicants represent that the terms of the proposed offer are consistent with the Commission's approach in Rule 11a-3, to the extent that no additional sales charges will be incurred in connection with the exchange and no administrative fees will be charged to effect the exchange. However, because the investment company involved in the proposed exchange offer is a registered

separate account and is organized as a unit investment trust rather than as a management investment company, Applicants can not rely upon Rule 11a-3.

5. Applicants represent that the terms of the proposed exchange offer do not present the abuses against which section 11 was intended to protect. Applicants assert that no additional sales load or other fee will be imposed at the time of exchange, other than charges related to new underwriting needed for (i) certain optional insurance riders, (ii) a change to an improvement of underwriting classification, or (iii) a face amount increase.

6. Applicants state that the policy value and face amount of a New Policy acquired in the proposed exchange will be the same immediately after the exchange as that of the Old Policy immediately prior to the exchange, except in those instances where the face amount is increased so as to comply with Section 7702 of the IRC. Accordingly, Applicants assert that the exchanges, in effect, will be relative net asset value exchanges that would be permitted under section 11(a) if the Account were registered as a management investment company rather than as a unit investment trust.

7. Applicants represent that the description of the proposed exchange offer in letters to old policy owners and in the New Policy's prospectus will provide full disclosure of the material differences between the Old and New Policies. Further, Applicants state that: (a) Those letters, and any other sales literature used in connection with the exchange offer, will have been filed with NASD, Inc. for review; (b) each old policy owner will be offered, at no charge, personalized illustrations that compare the Old and New Policies; and (c) the personal illustrations will show whether a New Policy has greater or lesser costs and charges than the Old Policy. Applicants maintain that the New Policies should be less expensive than the Old Policies for many, if not most, policy owners, and contend that even where personalized illustrations show that the New Policy may be more expensive than the Old Policy, the owner may determine that the availability of a broader range of variable investment options under the New Policy make the New Policy more attractive than the Old Policy. Applicants assert that the disclosure and the illustrations provided upon request will provide Old Policy owners with sufficient information to determine which Policy they prefer.

8. Applicants contend that, like those cited, the present application involves

an exchange offer that does not present any duplication of sales loads or administrative fees. Because no additional sales load or administrative charges for effecting an exchange will be incurred as a result of any exchange pursuant to the proposed offer (other than in connection with underwriting for riders or for a face amount increase or for an improvement of underwriting classification), Applicants submit that the terms of the proposed offer are routine ones that may properly be approved by an order issued by the Division of Investment Management pursuant to delegated authority.

Conclusions

Applicants submit that, for the reasons summarized above and to the extent necessary or appropriate, approval of Applicants' offer of exchange as described, and subject to the conditions set forth in this Application, is appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the Act. Therefore, Applicants submit that the Commission should grant the approval sought by this Application.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Nancy M. Morris,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54381; File No. SR-Phlx-2006-50]

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change and Amendment No. 1 Thereto Relating to Extending Its Pilot Programs for Dividend, Merger, and Short Stock Interest Strategies

August 29, 2006.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 9, 2006, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which items

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.